

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 SP-02 USIA-15 AID-05 NSC-05

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 4728

INFO AMEMBASSY GUATEMALA

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AMEMBASSY SAN SALVADOR

AMEMBASSY PANAMA

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E.O. 11652: N/A

TAGS: ECON, CS

SUBJECT: CERP 0200: 1976 AND 1977 GOVERNMENT EXPENDITURES

GUATEMALA PASS ROCAP

1. ACCORDING TO A RECENT STATEMENT BY CARLOS MANUEL CASTILLO, FIRST VICE-PRESIDENT OF COSTA RICA, GOVERNMENT EXPENDITURES DURING 1976 WILL AMOUNT TO 3.6 BILLION COLONS (422 MILLION DOLLARS), A 25 PERCENT INCREASE OVER FINAL 1975 EXPENDITURES OF ALMOST 2.9 BILLION COLONS. THE ORIGINAL 1976 BUDGET, APPROVED BY THE ASSEMBLY IN DECEMBER 1975, AUTHORIZED EXPENDITURES FOR 1976 OF 2.9 BILLION COLONS, THE SAME LEVEL AS 1975.

2. ON AUGUST 5, 1976, TWO EXTRAORDINARY EXPENDITURES WERE APPROVED BY THE ASSEMBLY: 324 MILLION COLONS FOR PAY INCREASES FOR GOVERNMENT WORKERS, SERVICING OF THE PUBLIC DEBT, AND FINANCING THE UNIVERSITIES; AND 138
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MILLION COLONS FOR PURCHASING ROAD BUILDING EQUIPMENT.

THE SUM OF THE TWO EXTRAORDINARY EXPENDITURES AND OF THE ORIGINAL 1976 BUDGET EQUALS 3.362 BILLION COLONS. VICE-PRESIDENT CASTILLO'S ESTIMATE OF FINAL 1976 EXPENDITURES INDICATES THAT THE ASSEMBLY MUST STILL APPROVE EXPENDITURES OF 238 MILLION COLONS FOR 1976.

3. DESPITE A RECENT TAX REFORM INTENDED TO INCREASE CURRENT REVENUES, GOVERNMENT EXPENDITURES WILL EXCEED GOVERNMENT REVENUES BY APPROXIMATELY 500 MILLION COLONS. THIS DEFICIT WILL BE FINANCED MOSTLY BY INTERNAL AND EXTERNAL BORROWING, AND TO SOME EXTENT BY MONEY CREATION.

4. IN THE SAME REMARKS, CASTILLO PREDICTED THAT THE 1977 BUDGET WOULD NOT EXCEED 4 BILLION COLONS (468 MILLION DOLLARS) AND THAT THE GOVERNMENT WOULD ATTEMPT TO HOLD 1977 EXPENDITURES OF 3.8 BILLION COLONS.

5. COMMENT: EMBOFFS DISCUSSED THE PROBLEM OF FINANCING THE 500 MILLION COLONS DEFICIT WITH A SENIOR OFFICIAL OF THE CENTRAL BANK. LATTER SAID THAT BOND SALES ARE GOING WELL THIS YEAR, THE PUBLIC HAVING ABSORBED SOME 140 MILLION COLONS IN NET NEW ISSUES IN THE FIRST HALF OF THE YEAR. HOWEVER, HE THOUGHT IT WOULD BE DIFFICULT TO SELL MORE THAN ABOUT 250 MILLION COLONS IN BONDS PER YEAR TO THE PUBLIC. THIS A SUBSTANTIAL PORTION OF THE 1976 DEFICIT WILL HAVE TO BE COVERED BY CENTRAL BANK PURCHASES OF GOVERNMENT BONDS. TODMAN

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